

# A STUDY ON INVESTMENT PREFERENCE OF COMMERCIAL BANKS IN INDIA.

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## ABSTRACT

If the economy is considered as the body then the bank is like a heart pumping blood in the form of finance in the whole body to keep it sustained. The banks usually have ideal fund with them which they invest in other securities and institutions. The basic reason behind the investment is to keep the safety of the amount deposited with banks by the customer and to maintain liquidity and earn some return on such ideal funds. The investment is done as per the guidelines of RBI. In India, the banks make an investment as per the risk covered by security. The study revealed that the least risky security is preferred the most in India without considering the returns. An investment arrangement ought to guarantee the most extreme benefit and least Risk. The banks should also make an investment in foreign ventures.

**KEYWORDS:** Bank, Investment, Investment Policy, Interest.

## INTRODUCTION

The bank is one of the well recognized financial institutions. They work in the economy as the heart which pumps blood in the body in the form of money. The sum of money that banks get in the form of money is not necessarily provided in the forms of lendings. The excess funds with banks after following guidelines relating to Cash Reserve Ratio (CRR) and statutory liquidity ratio (SLR) the funds are further invested. The banks are required to follow the guidelines prescribed by RBI at the time of making investments. Basically, motives of the investment by the banks cover safety and security, liquidity of funds and profitability of the bank

It is very essential for banks to safeguard the amount which is deposited by the bank account holders of the bank. The sum of the amount that is deposited by the account holders in the banks should be safe and sound. The depositors should get back the amount deposited whenever they necessitate. It is a must for commercial banks to preserve the liquidity of sum deposited by the account holders of the banks. The banks should make sure that the money deposited should be in ready to take out state every time the bank account holders require or want to withdraw from their account. This will help in building faith among the bank account holders for the bank. Therefore, the convertibility of investment in readily and easy cash conversion is vital to keep in mind while framing the investment by banks. Thus, banks are intended to keep some part of the stock of their total liabilities held in the form of deposits as Cash Reserve Ratio with the central bank of India (RBI) and also to keep a required amount in the form of Statutory Liquid Ratio to convert into easy cash. And for the smooth working of any bank its profitability to sustain is important for banks own sustainability. The bank account holders give weight to the financial performance of the bank also. They get easily attracted to make investments or safeguard their funds with those banks which held a growing and upward trend of profitability. Thus, it is important for banks to maintain and grow their profit digits. The upward moving chart of banks attracts bank account holders and also helps in the creation of goodwill among bank account holders.

## LITERATURE REVIEW

**Kvitha (2012)** made an endeavor to put an understanding into determinants of assets the executives in Indian booked business banks. The specialist attempted to decide the venture pattern and returns the nature of such speculations of planned business banks in India. The examination uncovered that private banks bunches are contributing not as much like that of open banks. This examination put light on the development position and furthermore clarified the example of the venture and the ideal blend of advantages and liabilities of planned business banks.

**Someshwar (2015)** highlighted in the paper the trend of investment pattern of banks in India. It is observed that the management of the surplus funds should be so, that it will give to the provider of the assets that is the banks. Nonetheless, the venture is a procedural undertaking. It must pursue a positive procedure, to guarantee the definition of legitimate speculation arrangement. Banks are dispensing their cash as an interest in exchange business and industry. In this manner, banks ought to pursue the rule of venture for benefit.

## INVESTMENT POLICY OF COMMERCIAL BANKS

The commercial banks in India while framing the investment policy required to pave the investment decision in such a manner that they fall under the limits and erm of investment prescribed by RBI. Some of the guidelines are as under:-

**Obligatory Investment-** It is a mandatory prerequisite of Banking Regulation Act, all banks are required to keep a fixed percentage of total deposits received in the form of Cash Reserve Fund (CRR) and Statutory Liquid Reserve (SLR). The rate of CRR and SLR changes from time to time.

**Credits and Advances-** Bank can contribute up to 75% of claim reserves and up to 70% of complete stores in the form of credits and advances, out of which, outstanding bit can be progressed according to Loan Policy of the bank keeping in view the roof of most extreme measure of development to a solitary individual, comparable kind of business and on comparative sort of securities to limit the hazard included.

**Interest In Other Banks-** Bank may put its surplus assets in any business, private and helpful Banks however in the event that any such bank gives a significantly higher rate of premium, at that point its monetary position must be broke down.

**Interest On Non-SLR Debt Securities-** With the continuous directions issued by the Reserve Bank of India one after another keeping in view the extra pay on speculation and wellbeing of surplus assets, a venture might be made in Liquid Funds getting a charge out of good market FICO score and furthermore exchanging Government Securities.

**Interest in Other Institutions, Corporations, and Companies-** Bank won't put its excess funds in some supplementary organization, partnership firm, and other forms of business concerns at all the appealing rate of premium.

**Government Securities-** Government Securities means those securities that are issued by the Central as well as the State Governments of India.

**Money Management-** Except in some specified conditions, the money balance in the Bank will be kept aside as far as possible as abundance money will influence the productivity of the bank.

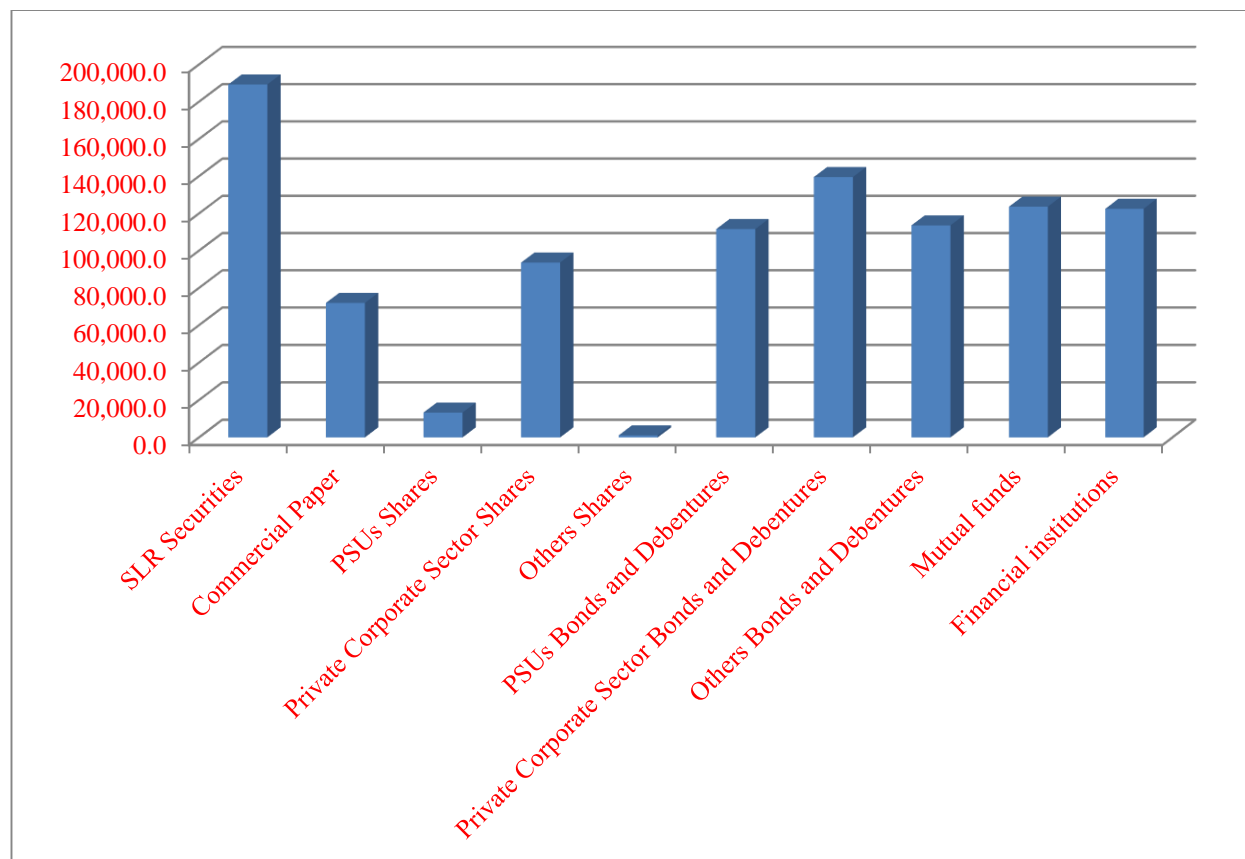
## ANALYSIS

**Table 1: Investment preference of commercial banks**

| No. 13: Scheduled Commercial Banks' Investments |                            |                            |                            |                            |                            |                            |                            |                            |                            |                            |                            |                            |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|   |                            |                            |                            |                            |                            |                            |                            |                            |                            |                            |                            | (= Billion)                |
| Item  | As on<br>March<br>30, 2018 | As on<br>March<br>31, 2017 | As on<br>March<br>18, 2016 | As on<br>March<br>20, 2015 | As on<br>March<br>21, 2014 | As on<br>March<br>22, 2013 | As on<br>March<br>23, 2012 | As on<br>March<br>25, 2011 | As on<br>March<br>26, 2010 | As on<br>March<br>27, 2009 | As on<br>March<br>28, 2008 | As on<br>March<br>30, 2007 |
| 1 SLR Securities                                | 33,184.5                   | 30,309.6                   | 26,255.1                   | 24,918.3                   | 22,128.2                   | 20,061.0                   | 17,377.9                   | 15,016.2                   | 13,84.75                   | 11,66.41                   | 9,71.715                   | 7,91.516                   |
| 2 Commercial Paper                              | 1,159.4                    | 1,159.6                    | 817.9                      | 467.9                      | 159.5                      | 324.3                      | 196.0                      | 123.1                      | 25,188                     | 20,001                     | 13,270                     | 9,038                      |
| 3 Shares issued by                              |                            |                            |                            |                            |                            |                            |                            |                            |                            |                            |                            |                            |
| 3.1 PSUs  | 118.7                      | 91.9                       | 77.1                       | 81.8                       | 82.9                       | 86.8                       | 72.0                       | 89.6                       | 4,625                      | 2,769                      | 3,025                      | 2,129                      |
| 3.2 Private Corporate Sector                    | 745.3                      | 567.3                      | 435.5                      | 365.8                      | 334.2                      | 338.0                      | 301.1                      | 323.5                      | 25,481                     | 25,060                     | 23,389                     | 16,225                     |
| 3.3 Others                                      | 42.1                       | 51.8                       | 55.9                       | 32.7                       | 9.4                        | 8.7                        | 5.2                        | 4.5                        | 86                         | 407                        | 294                        | 74                         |
| 4 Bonds/Debentures issued by                    |                            |                            |                            |                            |                            |                            |                            |                            |                            |                            |                            |                            |
| 4.1 PSUs  | 1,399.7                    | 1,118.5                    | 930.7                      | 809.5                      | 831.5                      | 460.5                      | 412.1                      | 279.5                      | 22,710                     | 25,456                     | 27,935                     | 29,232                     |
| 4.2 Private Corporate Sector                    | 2,222.3                    | 1,680.0                    | 1,324.4                    | 1,159.2                    | 1,159.1                    | 1,026.2                    | 740.5                      | 660.3                      | 40,067                     | 33,131                     | 28,700                     | 27,641                     |
| 4.3 Others                                      | 994.6                      | 810.9                      | 511.2                      | 505.1                      | 459.8                      | 480.8                      | 349.3                      | 456.1                      | 30,902                     | 31,073                     | 29,230                     | 17,787                     |
| 5 Instruments issued by                         |                            |                            |                            |                            |                            |                            |                            |                            |                            |                            |                            |                            |
| 5.1 Mutual funds                                | 177.3                      | 134.0                      | 641.7                      | 585.6                      | 401.1                      | 436.7                      | 251.4                      | 476.0                      | 52,887                     | 37,035                     | 18,824                     | 11,761                     |
| 5.2 Financial institutions                      | 895.8                      | 844.3                      | 629.0                      | 627.6                      | 593.8                      | 489.5                      | 382.5                      | 313.0                      | 32,597                     | 32,585                     | 25,942                     | 26,568                     |

SOURCE: [www.rbi.org.in](http://www.rbi.org.in)

According to the above table, Scheduled Commercial Banks put its greater part of assets in SLR Securities. These might be because of generally safe and inexpensive advantage. Commercial Banks in the way of putting resources into SLR Securities put its most of the remaining assets in Private corporate sector bonds/debentures then the third preference in terms of investment is given to mutual funds and financial institutions. After this, the investing area is found to be that of other bonds and debentures and then commercial papers and PSUs shares and the least preferred are the other shares.



## CONCLUSION

It can be observed that the pattern of investment by banks in India is based on the risk criteria. The lower the risk, the more the amount invested in the security. Thus, it can be said that Scheduled Commercial Banks ought to be especially cautious while investing its assets. Banks while making their portfolio try to make sure best to their knowledge that, investment speculation ought to guarantee the greatest benefit and least hazard. Banks are all the more focusing on advances as a contrast with speculation out of their absolute ideal funds. With this, there is additionally a wreck in the profit earning capacity of banks, in light of the fact that the arrival on venture is lesser when contrasted with premium pay. Along these lines, Portfolio of ventures might be moved up to win most extreme profits for speculations. An investment arrangement ought to guarantee the most extreme benefit and least Risk. A gigantic gathering and venture approach assume an imperative job in the monetary advancement of the entire economy.

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